TRANSMITTAL SLIP | DATE 7 MAR 1984

TO: Director of Personnel

ROOM NO. G20 | **BUILDING** [redacted]

STAT

REMARKS:

DD/OP has copy.

DD/SP 13 MAR 1984

FROM: [redacted] LD/OLL

STAT

ROOM NO. 7B24 | **BUILDING** HQS | **EXTENSION** [redacted]

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FORM NO. 241 REPLACES FORM 36-8 WHICH MAY BE USED. (47)

Sanitized Copy Approved for Release 2011/02/28 : CIA-RDP89-00066R000300110007-3

84-1112

07 MAR 1984

MEMORANDUM FOR: Director of Personnel

STAT

FROM: [redacted]
Liaison Division
Office of Legislative Liaison

SUBJECT: House Committee on Post Office and Civil Service Recommendations to the House Budget Committee on the President's FY 1985 Budget Initiatives re Federal Employees (3/7/84)

SUMMARY: Attached for your information and use are copies of the Committee on Post Office and Civil Service's recommendations to the House Committee on the Budget on the Administration's FY 1985 budget proposals as they affect federal employees. This attachment, dated 6 March 1984, and entitled " Proposed Views and Recommendations on Administration's FY 1985 Budget Proposals", was unamimously approved by the full Committee in hearing today.

1. With Mr. Ford (D,MI) in the chair, Ms. Oakar (D,OH) introduced a proposal for Committee consideration. Her proposal is the first attachment to this memorandum. Mr. Dannemeyer (R,CA) immediately introduced an amendment in the nature of a substitute for Ms. Oakar's motion (i.e., the second attachment, entitled "RE: GRACE PROPOSALS FOR FY85 PO/CS BUDGET REPORT"). After some heated give and take across the aisle, all of which appeared to be strictly partisan, the Committee voted down Mr. Dannemeyer's amendment by a 22 to 3 count. Messrs Dannemeyer, Crane (R,IL), and Mack (R,FL) voted for the Grace recommendations. Upon this setback, Mr. Dannemeyer immediately introduced a second amendment in the nature of a substitute for Ms. Oakar's motion (i.e., the third attachment, entitled "DANNEMEYER PROPOSAL - B"). After fifteen minutes or so of discussion, the Committee voted down Mr. Dannemeyer's second amendment by the same 22 to 3 count. Having defeated two Republican attempts to influence the Committee's position of the issue, Mr. Ford moved to vote on the majority's proposal as originally introduced by Ms. Oakar. The Committee vote for approval was unanimous.

2. The Civil Service and Post Office Committee vote will now be communicated to the House Budget Committee, which will itself consider and vote on spending targets for all House jurisdictional committees (of which Post Office and Civil Service is one of many). This Budget Committee vote will take the form of the First Budget Resolution, which will establish spending targets for the ongoing authorization and appropriation processes.

3. If nothing else, the Post Office and Civil Service Committee vote today gives a sense of where the House majority probably is with respect to federal employee pay and certain benefit issues. If there is further significance, I am not smart enough to find it.

STAT

Attachments:
As stated

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March 6, 1984

Proposed Views and Recommendations
on Administration's FY 1985 Budget Proposals

I. Federal Employee Pay Increase

Administration Proposal: The President's budget assumes a 3.5 percent pay increase for civilian employees and a 5.5 percent pay increase for military personnel, effective January 1, 1985. Delaying a 3.5 percent pay increase for Federal civilian employees from October 1984 to January 1985 would save approximately $485 million in FY 1985.

Proposed Committee Position: The Federal employees' pay increase has been capped in each of the past six years. Last year's pay increase was delayed by three months in addition to being capped. Under the pay comparability provisions of existing law, Federal employees should receive an increase of more than 21 percent this year in order to maintain comparability with private sector pay rates. The meager pay increases that Federal employees received in fiscal years 1983 and 1984 were substantially offset by various reductions in pay, such as the 1.3 percent medicare tax, and by increases in Federal employees' health insurance premiums. In fact, many Federal employees actually experienced a net decrease in pay in FY 1984. The picture for FY 1985, based on the Administration's FY 1985 budget proposals, could be even worse. See Attachment No. 1 which illustrates the effects of various deductions on Federal employees' pay increases for fiscal years 1983, 1984, and 1985.

In view of the foregoing, this Committee strongly recommends that Federal employees receive a 5.5 percent pay increase, effective October 1984. This Committee believes there is no justifiable basis for delaying the pay increase until January 1985 and further believes that Federal civilian employees should, at a minimum, receive the same percentage pay increase that the Administration has proposed for military personnel.

II. Civil Service Retirement COLA Delay

Administration Proposal: The President proposes to shift the retirement COLA due in June 1984 to January 1985 and permanently shift the COLA payment date to January of each year.

Proposed Committee Position: The Committee points out that similar provisions are included in H.R. 4169 (Omnibus Budget Reconciliation Act of 1983) which passed the House last year and is now pending in the Senate.

III. Civil Service Retirement Revisions

Administration Proposals:

1. Half-COLA Provision: The Omnibus Budget Reconciliation Act of 1982 provided a one-half COLA for retirees under age 62, subject to a 3.3 percent

minimum in the case of the FY 1985 COLA. The President proposes to repeal the 3.3 percent minimum provision and provide a true half-COLA in FY 1985.

2. COLA Base: Beginning with the 1986 COLA, the President proposes to base the COLA on the lesser of the CPI increase or the General Schedule pay increase. The Administration says that this proposal is similar to one adopted last year for social security "under certain circumstances".

3. COLA Limit: Under existing COLA provisions the entire amount of an annuity is adjusted by 100 percent of the CPI increase. Under the President's proposal, COLA's for civil service retirees would be 100 percent of the CPI increase for the first $10,000 of annuity and 55 percent of the CPI for the amount of the annuity that exceeds $10,000.

4. Civil Service Retirement Contributions: The President proposes increasing both the employee's and agency's civil service retirement contribution to 8 percent in 1985 and 9 percent in 1986.

5. Miscellaneous Retirement Changes: The President proposes to repeal the minimum civil service annuity provision and the adult student benefit provision.

Proposed Committee Position: The Committee now is involved in the development of a supplemental retirement plan for those Federal officers and employees who are covered by social security. This is a most difficult task which will require a great deal of time and effort on the part of the Members of this Committee. The Committee has engaged a well-respected employee benefits consulting firm to assist in this effort. The consultant is performing a comprehensive analysis of the various Federal pension systems and of certain private sector and State retirement systems and is also conducting a comparability study of private sector pay and fringe benefit programs. In view of these ongoing efforts, the Committee believes it would be premature and unwise at this time to consider any of the President's proposed civil service retirement changes.

Furthermore, the Committee points out that Federal retirees and their survivors already have suffered substantial reductions in their annuity benefits. Attachment No. 2 analyzes the effects of the various civil service retirement COLA changes that have been enacted since 1980. This analysis shows that the annuity of a representative career employee retiring in February 1981 has been reduced by over $1,500 as the result of the various COLA changes enacted since 1980. During the period from February 1981 to May 1984, this same retiree has suffered a loss of approximately $6,000 in total annuity payments as a result of the changes. This amount represents a loss of more than 10 percent of the retiree's total annuity payments during the three-year period.

IV. Federal Employees Health Benefits

Administration Proposal: The Administration proposes a major restructuring of the FEHB Program. Under the proposal each employee would receive a fixed dollar amount towards the purchase of health insurance. The amount would be based on the average Government contribution for Federal employee health insurance in 1984, indexed in future years to reflect price increases. However, the proposed index would not reflect the substantial annual increases in health care costs.

Proposed Committee Position: There has been a steady erosion of Federal employee health benefits under the present Administration. Premiums have increased substantially and the overall level of benefits has substantially decreased. According to a study conducted by William M. Mercer, Inc., the value of benefits under the FEHBP now falls below the average value of benefits received by employees in the private sector and State government plans. While changes in the FEHBP are warranted, it appears that the sole objective of this Administration with respect to the FEHBP is simply to reduce outlays -- not improve the program. The Committee recommends rejection of the President's proposal on the basis that the Committee is considering a comprehensive bill (H.R. 656) to improve the Federal Employees Health Benefits Program.

Postal Service Issues

The Administration is requesting a total FY 1985 appropriation to the Postal Service of $692 million, consisting of the following items: $240 million for the transitional appropriation (covering certain liabilities of the pre-Postal Reorganization Act Post Office Department) and $452 million for the revenue forgone appropriation (including $52 million for reconciliation of FY 1982 revenue forgone costs). The revenue forgone appropriation subsidizes the postage rates paid by "preferred rate" mailers such as charities, churches, schools, libraries, veterans' organizations, rural newspapers, labor organizations, and publishers of classroom materials.

Proposed Committee Position: The Committee recommends a total FY 1985 appropriation to the Postal Service of $1.091 billion, consisting of the following items: $240 million for the transitional appropriation and $851 million for the revenue forgone appropriation (including the requested $52 million for the reconciliation of FY 1982 revenue forgone costs).

1. Transitional Appropriation. This appropriation, as authorized by 39 U.S.C. 2004, pays for workers' compensation and accrued annual leave liabilities of the pre-1971 Post Office Department. The requested amount of $240 million results from the

1981 Omnibus Reconciliation Act's deferral until FY 1985 of the authorizations for FY 1982, FY 1983, and FY 1984. Hence, the request covers four years' expenses. The Committee position and the Administration position concerning this appropriation are in accord.

2. Revenue Forgone. The rates paid by "preferred rate" mailers are tied directly to the level of revenue forgone appropriations. Since January of 1982, "preferred" rates have risen dramatically. For example, a typical fundraising letter sent by a nonprofit organization such as the Salvation Army now bears 48 percent more in postage than it did two years ago. The Administration's requested appropriation of only $452 million, if agreed to, would result in that piece having to bear an additional 53 percent in postage over the present rate. The Committee believes that these mailers already have borne more than their share of the burden of past appropriation reductions. For FY 1985, the Committee recommends appropriating the amount necessary to fund the original preferred rate "phasing" schedule set forth by the Postal Reorganization Act of 1970, as amended: $851 million (including the $52 million reconciliation

payment requested by the Administration). This would put the preferred rates at Step 13 from October 1, 1984 through July 5, 1985, followed by an automatic increase to Step 14 on July 6, 1985. Rates are presently at Step 14. The Administration's request would eliminate "phasing" totally and push preferred rates much closer to regular commercial rates.

ATTACHMENTS

ATTACHMENT NO. 1

EFFECT OF DEDUCTIONS ON FEDERAL WHITE-COLLAR PAY INCREASES FOR FY 1983

Deductions:

--Increased premiums for Blue Cross/Blue Shield high option-family

--Medicare tax

				DEDUCTIONS			
GRADE	1982 SALARY	1983 SALARY	SALARY INCREASE (4%)	1.3 PERCENT MEDICARE TAX	FEHB INCREASE BLUE C/S H/O FAMILY	ACTUAL PAY INCREASE	ACTUAL PERCENT INCREASE
GS-5	$12,854	$13,369	$514	$130	$227	$157	1.218%
GS-9	$19,477	$20,256	$779	$197	$227	$354	1.819%
GS-11	$23,566	$24,508	$943	$239	$227	$476	2.022%
GS-14	$39,689	$41,277	$1,588	$348	$227	$1,012	2.550%
GS-15	$46,685	$48,553	$1,867	$348	$227	$1,292	2.768%

EFFECT OF DEDUCTIONS ON FEDERAL WHITE-COLLAR PAY INCREASES FOR FY 1984--DELAYED PAY INCREASE

Deductions:

--Increased premiums for Blue Cross/Blue Shield high option-family

--Medicare tax

--2087 workyear recalculation

						DEDUCTIONS			
GRADE	1983 SALARY	1984 SALARY	SALARY INCREASE (3.5%)	SALARY INCREASE DELAYED	1.3 PERCENT MEDICARE TAX	FEHB INCREASE BLUE C/S H/O FAMILY	WORKYEAR RE-CALCULATION	ACTUAL PAY INCREASE	ACTUAL PERCENT INCREASE
GS-5	$13,369	$13,837	$468	$351	$180	$280	$46	($156)	-1.163%
GS-9	$20,256	$20,965	$709	$532	$273	$280	$70	($91)	-0.450%
GS-11	$24,508	$25,366	$858	$643	$330	$280	$85	($52)	-0.213%
GS-14	$41,277	$42,722	$1,445	$1,084	$491	$280	$143	$169	0.410%
GS-15	$48,553	$50,252	$1,699	$1,275	$491	$280	$169	$335	0.690%

PROJECTED EFFECT OF DEDUCTIONS ON FEDERAL WHITE-COLLAR PAY INCREASES FOR FY 1985--DELAYED PAY INCREASE

Deductions:

--Medicare tax

--2087 workyear recalculation

--1 percent increase in retirement

						DEDUCTIONS			
GRADE	1984 SALARY	ESTIMATED 1985 SALARY	SALARY INCREASE (3.5%)	SALARY INCREASE DELAYED	1.3 PERCENT MEDICARE TAX	WORKYEAR RE-CALCULATION	1 PERCENT INCREASE FOR RETIREMENT	ACTUAL PAY INCREASE	ACTUAL PERCENT INCREASE
GS-5	$13,837	$14,321	$484	$363	$186	$48	$143	($14)	-0.103%
GS-9	$20,965	$21,699	$734	$550	$282	$73	$217	($22)	-0.103%
GS-11	$25,366	$26,254	$888	$666	$341	$88	$263	($26)	-0.103%
GS-14	$42,722	$44,217	$1,495	$1,121	$491	$148	$442	$40	0.093%
GS-15	$50,252	$52,011	$1,759	$1,319	$491	$174	$520	$133	0.265%

NOTE: Blue Cross/Blue Shield premium increases not available for FY 1985

EFFECT OF DEDUCTIONS ON FEDERAL WHITE-COLLAR PAY INCREASES FOR FY 1983

Deductions:

--Medicare tax

--Average increased premiums for three FEHB plans with largest enrollment (BC/BS, Aetna, and Mailhandlers)

GRADE	1982 SALARY	1983 SALARY	SALARY INCREASE (4%)	DEDUCTIONS: 1.3 PERCENT MEDICARE TAX	DEDUCTIONS: FEHB INCREASE AVERAGE OF 3 PLANS	ACTUAL PAY INCREASE	ACTUAL PERCENT INCREASE
GS-5	$12,854	$13,369	$514	$130	$84	$300	2.331%
GS-9	$19,477	$24,509	$779	$239	$84	$456	2.342%
GS-11	$23,566	$24,508	$943	$239	$84	$620	2.630%
GS-14	$39,689	$48,552	$1,588	$348	$84	$1,155	2.911%
GS-15	$46,685	$48,553	$1,867	$348	$84	$1,435	3.074%

EFFECT OF DEDUCTIONS ON FEDERAL WHITE-COLLAR PAY INCREASES FOR FY 1984--DELAYED PAY INCREASE

Deductions:

--Medicare tax

--Average increased premiums for three FEHB plans with largest enrollment (BC/BS, Aetna, and Mailhandlers)

--2087 workyear recalculation

GRADE	1983 SALARY	1984 SALARY	SALARY INCREASE (3.5%)	SALARY INCREASE DELAYED	DEDUCTIONS: 1.3 PERCENT MEDICARE TAX	DEDUCTIONS: FEHB INCREASE (AVERAGE OF 3 PLANS)	DEDUCTIONS: WORKYEAR RE-CALCULATION	ACTUAL PAY INCREASE	ACTUAL PERCENT INCREASE
GS-5	$13,369	$13,837	$468	$351	$180	$138	$33	$1	0.006%
GS-9	$20,256	$20,965	$709	$532	$273	$138	$50	$72	0.357%
GS-11	$24,508	$25,366	$858	$643	$330	$138	$60	$116	0.472%
GS-14	$41,277	$42,722	$1,445	$1,084	$491	$138	$101	$354	0.857%
GS-15	$48,553	$50,252	$1,699	$1,275	$491	$138	$119	$527	1.086%

PROJECTED EFFECT OF DEDUCTIONS ON FEDERAL WHITE-COLLAR PAY INCREASES FOR FY 1985--DELAYED PAY INCREASE

MEDICARE TAX EXCLUDED

Deductions:

--Medicare tax

--2087 workyear recalculation

--1 percent increase in retirement

GRADE	1984 SALARY	ESTIMATED 1985 SALARY	SALARY INCREASE (3.5%)	SALARY INCREASE DELAYED	DEDUCTIONS: 1.3 PERCENT MEDICARE TAX	DEDUCTIONS: WORKYEAR RE-CALCULATION	DEDUCTIONS: 1 PERCENT INCREASE FOR RETIREMENT	ACTUAL PAY INCREASE	ACTUAL PERCENT INCREASE
GS-5	$13,837	$14,321	$484	$363	$186	$48	$143	($14)	-0.099%
GS-9	$20,965	$21,699	$734	$550	$282	$72	$217	($21)	-0.099%
GS-11	$25,366	$26,254	$888	$666	$341	$87	$263	($25)	-0.099%
GS-14	$42,722	$44,217	$1,495	$1,121	$491	$147	$442	$41	0.096%
GS-15	$50,252	$52,011	$1,759	$1,319	$491	$173	$520	$135	0.268%

NOTE: FEHB premium increases were not available for FY 1985

ATTACHMENT NO. 2

March 6, 1984

Effect of Civil Service Retirement COLA Changes Since 1980 on a Representative Career Retiree

Effective January 19, 1981, the civil service retirement law was amended to repeal the annuity "look-back" provision, whereby new retirees had been guaranteed starting annuities no less than they would have received if they had retired immediately before the last annuity cost-of-living adjustment (COLA). That same amendment called for prorating the first COLA granted after an employee's retirement based on the number of months the employee had been retired before the effective date of the adjustment. (Previous law had allowed a new retiree to receive the full adjustment percentage.)

In August 1981, the law again was amended to provide COLAs effective March 1 of each year in lieu of the twice-a-year adjustments (March 1 and September 1) that had been in effect since 1976. In 1982, legislation temporarily delaying the March effective date for adjustments was enacted -- the 1983 adjustment was to be effective in April; the 1984 adjustment in May; and the 1985 adjustment in June. The 1982 legislation also provided a temporary change in the manner in which adjustments for nondisability retirees under age 62 would be calculated in 1983, 1984, and 1985. These retirees are to receive the greater of one-half of the projected full increase in the Consumer Price Index (CPI) for each of those years or one-half of the projected increase plus the amount by which the actual percentage CPI increase exceeds the projected increase.

To demonstrate the effect of these changes on annuity payments, we compared the annuity that an average employee retiring in 1981 under the age 55/30 years' service provisions would subsequently receive with and without the changes having been made. In 1981, employees retiring under the age 55/30 years' service provisions averaged age 57 with 34 years of service. Their salaries in their three highest paid years ("high-3") averaged about $25,000. To fully show the effect of the changes, we assumed the employee retired on February 1, 1981.

Because of the elimination of the "look-back" provision, the employee's initial annuity was reduced by $751 -- from $16,814 to $16,063 a year. Then, because the annuity adjustment of March 1, 1981, was prorated to reflect the fact that the employee had been retired for only one month, the individual received only one-sixth of the 4.4 percent COLA granted to retirees who had been on the rolls for the entire period since the previous adjustment. After the March adjustment, the retiree's annuity amount was $16,175 as compared to the $17,554 annuity amount that would have been payable if the COLA amendments had not been enacted.

The August 1981 legislation changing the COLA payments from twice-a-year to once-a-year resulted in the retiree missing adjustments that would otherwise have occurred in September 1981, September 1982, and September 1983. Moreover, the delay of the March 1983 half-COLA until April 1983 caused a further reduction in annuity payments over what the earlier legislation would have provided. At the end of 1983, the retiree's annuity amounted to $18,162. If none of the COLA changes had been enacted, the annuity amount would have been $20,062 at the end of 1983, and another adjustment of 1.4 percent effective March 1, 1984, would have raised the amount to $20,343. If the scheduled adjustment of 3.6 percent for retirees under age 62 takes effect in May 1984, the actual annuity will increase to $18,816.[1]

To summarize, the COLA changes enacted since 1980 reduced the retirees' annuity from what otherwise would have been paid by over $1,500 by May 1984. From February 1981 to May 1984, the retiree received a total of $57,581 in annuity payments, as compared to the $63,506 -- 10.3 percent more -- that would have been received if the changes had not been made.

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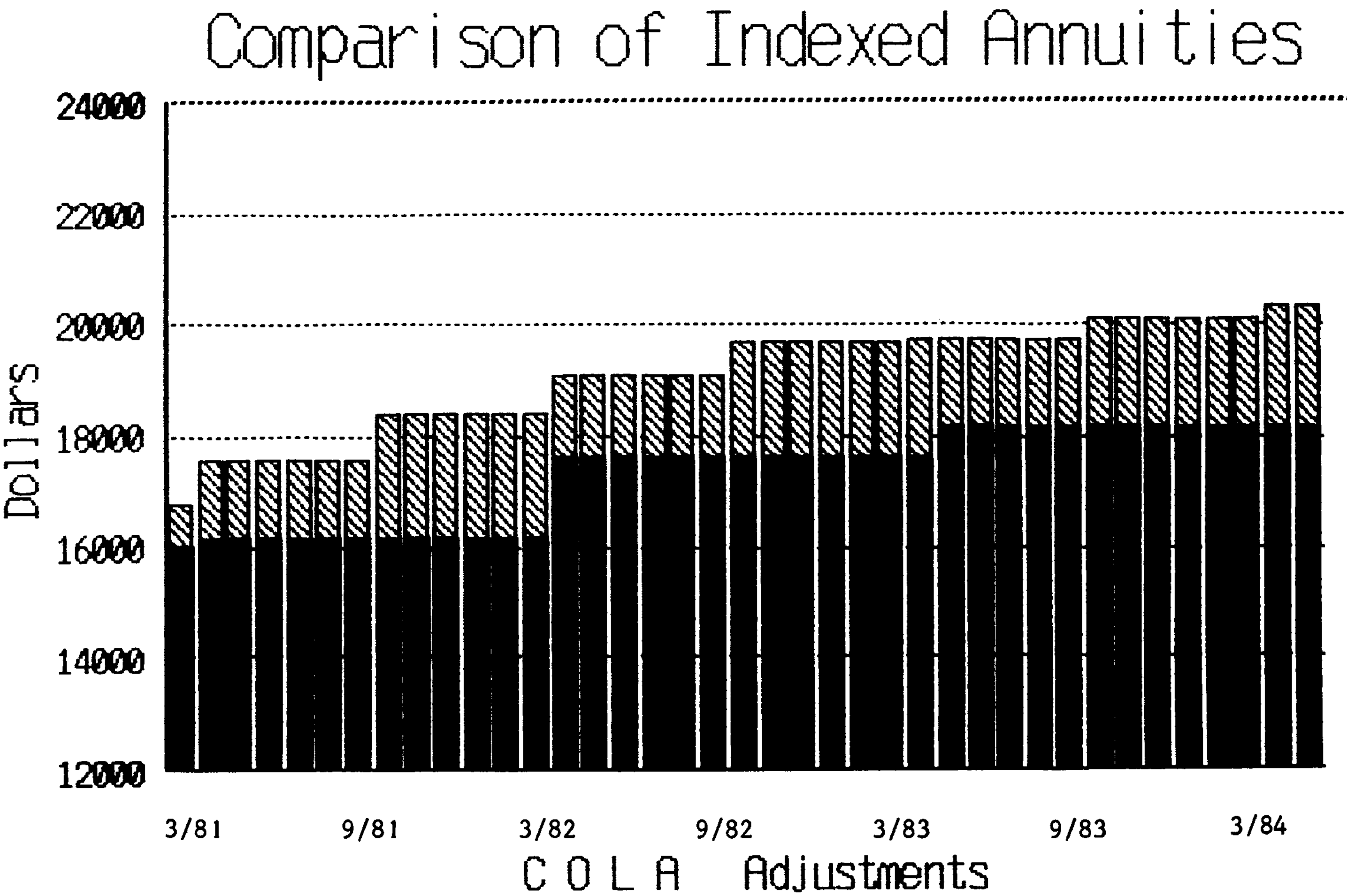
[1]The President's fiscal year 1985 budget proposes to delay the scheduled May 1984 increase until December 1984. If the proposal is approved, the retiree's annuity will remain at $18,162 until December.

COMPARISON OF RETIREMENT ANNUITY WITH AND WITHOUT COLA AMENDMENTS--EMPLOYEE RETIRING 2/1/81 WITH HIGH-3 OF $25,000--AGE 57, 34 YEARS SERVICE

Annuity without amendments		Annuity with amendments	
Initial annuity (with lookback)	$16,814	Initial annuity (without lookback)	$16,063
3/1/81 COLA (Full 4.4%)	17,554	3/1/81 COLA (1/6 or .7%)	16,175
9/1/81 COLA (4.9%)	18,414		
3/1/82 COLA (3.6%)	19,077	3/1/82 COLA (8.7%)	17,582
9/1/82 COLA (3.2%)	19,687		
3/1/83 COLA (.1%)	19,707		
		4/1/83 COLA (3.3%) 1/	18,162
9/1/83 COLA (1.8%)	20,062		
3/1/84 COLA (1.4%)	20,343		
		5/1/84 COLA (3.6%) 1/	18,[illegible]

1/ These are adjustment percentages for retirees under age 62. Retirees over age 62 received a 3.9% adjustment on 4/1/83 and are scheduled to receive a 3.3% adjustment on 5/1/84.



Annuity amounts actually received.

Additional annuity amounts that would have been received if COLA amendments had not been enacted.

RE: GRACE PROPOSALS FOR FY85 PO/CS BUDGET REPORT

GRACE PROPOSALS (6)	GRACE ESTIMATE FY85-89
1. Reform annual leave: reduce accrual, stop carryover, increase initial service	$1.4 bil.
2. Reform sick leave: cap accrued sick leave at 130 days; now unlimited	$1.4 bil.
3. Contracting out: mandate such and streamline process	$5.0 bil.
4. Retirement: change benefit formulas - alter credit for years - base on high-5, not high-3 salary* - eliminate crediting of unused sick leave - reduce survivor benefit or increase employee annuity reduction - eliminate college student benefit* - increase vesting from 5 to 10 years	$4.3 bil.

*part of Administration's FY85 Budget Proposal

Grace: 65
CBO: 258

FEDERAL EMPLOYEE ANNUAL LEAVE (PER-3, in 3 parts)

Problem: federal annual leave generous when compared to private sector

Savings: FY85 = $213 mil.
FY85-89 = $1.4 bil.

Employee Impact: see individual proposals below

Data base: Hay, Prentice-Hall, Conference Board surveys of 1,552 companies
1981 federal workforce baseline

Propose

1) to amend law to require minimum 180 days consecutive service for first vacation, rather than current law 90 days (PER 3-1)

Private sector: 53% of companies require 6 months for first vacation
22% of companies require 12 months for first vacation
only 24% of companies permit less than 6 months

Proposal effective: October 1, 1984 for new employees

Law: 5 USC 6303(b)

2) to amend law to reduce annual leave consistent with private sector (although revised law would still be more generous)

Employee Impact: effective 10-1-84 (would not take anything away from current employees, only change future entitlement)

Comparison:

Service Years	Current Law	Private Sector	Grace	
up to 3 yrs.	10 days	10 days	10 days	
3-5	20	10	12	
5-10	20	14	14	
10-15	20	16	17	(Grace still more
15-20	26	19	20	generous than
20-25	26	21	23	private sector)
25+ yrs.	26	22	26	

Current law: 5 USC 6303(a)

3) to amend the law to prohibit carryover of annual leave from year to yea
now capped at 240 days

Employee impact: effective 10-1-84 (affects future carryover only)

Comparison: 52% in private sector do NOT permit carryover
45% do provide some carryover

Current law: 5 USC 6304(a)

Note: On page 258, CBO reports that Grace failed to consider other leave such as "personal leave." Response: 1982 Bureau of Labor Statistics survey of medium/large firms (p. 21) states that 76% of employees surveyed got NO personal leave and those who did (24%) got less than 4 days.

Grace: 73
CBO: 266

FEDERAL EMPLOYEE SICK LEAVE (PER-4)

Problem: overutilization of sick leave and unlimited accumulation of sick leave

Propose: to amend law to cap carried over (accrued) sick leave at 130 days (does NOT change rate of accrual for sick leave)

Employee impact: effective 10-1-84; current employees with more than 130 days could keep it; proposals would not allow future accumulation

Savings: FY85 = $208.6 mil.
FY85-89 = $1.4 bil.

Data base: Hay, Prentice-Hall, Conference Board, US Chamber surveys
1981 federal workforce baseline

Comparison:

- current law provides accrual of 13 days per year of paid sick leave
- on average, 9 of those days used each year, other 4 accumulated. Chamber reports that private sector uses about 6 days per year
- accumulation: median in private sector = 121 days
  average in private sector= 138 days
  those retiring from fed govt = 180 days

Current law: 5 USC 6307(b)

Grace: 151
CBO: 281

CONTRACTED SERVICES (PER-12)

Problem: need legislation to mandate and streamline contracting out in order to get cooperation of agencies nationwide

Per CBO report: "GAO believes that effective implementation will not occur unless the Congress legislates a national policy on contracting out." (not a direct endorsement of this specific proposal)

Savings

FY85 = $688.3 mil.
FY85-89 = $5.0 bil.

OMB estimates that contracting out of 60% of federal activities representing $6 billion in annual operating costs and $3 billion in capaital outlays could produce savings of $5 billion over 6 years.

Employee impact:

shifting 165,000 federal jobs, mostly blue collar, to private firms, with most shifts out of DOD (3 to 1, DOD to other agencies)

Propose

- legislation to establish a firm national policy on acquiring goods and services from the private sector
- legislation to provide that OMB has authority to approve limited exceptions to the general policy based on predetermined criteria
- legislation to revise the cost comparison handbook procedures to make the analysis less complicated and detailed

Grace: 72
CBO: 259, 266

RETIREMENT: BENEFIT FORMULAS (RET-4)

Problem: As a percent of payroll costs, and in terms of benefits, the Civil Service Retirement System (CSRS) is too costly for its citizen-employers who enjoy less generous benefits.

1) Cost:

	Current System	Private Sector
	28.2% of payroll- OPM	17.1% of payroll-OPM
	40% of payroll by AD 2000-Grace	

2) Contributions: while private sector workers usually pay nothing for retirement, and federal employees pay 7% of payroll, that employee contribution is usually repaid within first 18 months in retirement

3) Growth in outlays: 1960-1981

CSRS outlays :	1,891%	
Social Security outlays:	1,209%	
Gross National Product:	478%	
Employee contributions:	437%	(for CSRS)
Agency contributions:	2,351%	(for CSRS)
Inflation:	208%	

4)

Comparison of Pension Plan Provisions
Private Sector vs Civil Service and Military

Provisions	(1) Typical Private Sector	(2) Civil Service	(3) Military
Most Common Retirement Age	63/64	55	40
Credit for Service	1.2%	1.7%	1.9%(a)
Pay Base	Highest 5 Years	Highest 3 Years	Highest 3 Years(b)
Early Retirement Reduction (% Per Year)	3%-6%	2%	no early retire
Indexing (% of CPI)	less than 5% have full COLA	100%	100%
Vesting (Years of Service)	10	5	20
Social Security Integration	Usually	No Soc. Security	No

5) Solvency: it is true that the CSRS trust fund will have enough money to pay benefits each year well thru the 21st century. But that statement says nothing about the cost of the system or who pays for the system. CBO estimates that private plans cost 22.8% of payroll compared to 28.7% for CSRS. And, while private employers pay 100% of plan costs, compared to 80% for federal agency employers, those 100% costs are paid out of

6) out of line with Social Security
- retirement age: reduced benefits: 62 vs. any age w/25 years due to involuntary separati
- annuity reduction for early out:
  Social Security: 6-2/3%/year for years under age 65
  CSRS: 2%/year for years under age 55

Brief facts:
1.4 million retirees
$12,480 - average annuity
26% retire due to disability
55% take optional retirement (when service met)
19% involuntary or special retirement
average years of service: 25.5 years
average retirement age: 61.1 vs 61.7 private
(however, masks 1/3 who take retirement near age 55)

Proposals (6)

Total Savings for 6 proposals:
FY85 = $648.1 million (Grace) FY85-89 = $4.3 billion (Grace)

1) alter CSRS credit for years of service from current 1.9% for each year for 30 years of service to 1.5% for 30 years (assumes integration with Social Security and offset of 1.25%)

Employee impact: those under age 45 at time of enactment, 10-1-84

Private sector: a good plan, not integrated with Social Security, has a credit for service of about 1.2% per year.

2) base CSRS annuity on average high-5 years salary versus current high-3 years salary

Employee impact: not affect those within 3 years of retirement; specific dollar impact depends on individual salary history (average annuity reduction: about 6%)
Private sector: most plans provide for salary base of 5 years, not 3

3) eliminate practice of crediting unused sick leave toward years of service in computing retirement benefits

Employee impact: for retirements after 10-1-84, no sick leave creditin (currently, about 6 months of sick leave credited or 1% cut in annuity

Private sector: few or no plans permit such crediting of unused sick l

4) reduce surviving spouse's benefit based on actuarial factors that take into account the actual ages of retirees and their spouses

Problem: CSRS will pay 55% of employee annuity to surviving spouse. However, reduction in employee's annuity (about 10%) only pays for one-third of the surviving spouse benefit.

Private sector: Hay survey shows that 85% of companies adjust survivor benefit to fully pay for survivor benefit

5) eliminate survivor benefits to young adults between ages 19 and 22 who are full-time college students

Problem: retirement benefits should not be paid to students in college/Social Security eliminated this practice

Employee impact: would not affect current covered students, would stop future coverage however (figures not available yet)

Private sector: Social Security does not provide for such benefits

6) increase service requirement for vesting in the CSRS from current 5 years to 10 years.

Employee impact: would cover everyone at date of enactment, 10-1-84

Private sector: most plans have 10 year vesting requirements

DANNEMEIER PROPOSAL - B

FY85 BUDGET PROPOSALS BY ADMINISTRATION (modification to #1)

	Proposal	FY85 SAVINGS
1.	Pay raise: equalize civilian/military pay hike at 3.5% on January 1, 1985	$485 mil.*
2.	Delay retirement COLA: 7 months, from June 84 to Jan. 84	$295 mil.
3.	True half-COLA for those retiring under age 62, effective January 1, 1985 (now: 3.3% for under 62)	$ 9 mil.
4.	Retirement COLAs on and after January 1, 1986: lesser of CPI or general scheduled wage increase (no savings since wage hike projected to be larger than CPI)	no savings**
5.	Limit retirement COLA to $10,000 base and only 55% of CPI on amounts over $10,000, effective 1-1-85 (and index $10,000 base to CPI each year)	$ 80 mil.
6.	Increase agency/employee retirement contribution from 7% to 8% on 10-1-84 and 8% to 9% on 10-1-85	$793 mil.
7.	Repeal minimum retirement benefit and over-18 college student benefit consistent with Social Security	$ 5 mil.
8.	Exclude new D.C. hires from employee benefit programs until they too are covered by Social Security (thru oversight they were left out of '83 Act)	minimal
9.	Enact federal health benefits voucher bill (HR 3798) which would increase access to more plans, require catastrophic coverage, tie premium increases to general price index and provide rebates to employees with lower cost plans	$240 mil.
10.	Require D.C. and Postal Service to pay agency share of retirees' health premiums (now charged to OPM)	$300 mil.
11.	Base retirement annuity on high-5 salary years instead of high-3 years (does not begin until FY88)	-0-
	TOTAL FY85 SAVINGS:	$2.2 bil.

*reflects only civilian savings

**since GS increases projected to exceed CPI for years to come and baseline calls for CPI adjustment of annuities, no savings

REP. DANNEMEYER 3-7-84

FY85 ADMINISTRATION PROPOSALS: SUPPORT

1. Pay Raise:
   - as a matter of equity we should equalize military/civilian hikes
   - 3.5% is reasonable: average wage increase for contracts covering 1,000 or more employees in 1983 was 2.8% annually and 1.7% for the duration of the contract.
   - Further, 38% actually took pay cuts over the life of the contracts

2. Delay retirement COLA by 7 months:
   - we're doing it to Social Security recipients (6 months)

3. True-half COLA for those retiring under age 62 (mostly military):
   - 1982 Reconciliation projected half-COLAs and they amounted to about 85% of the actual COLA

4. Cap retirement COLAs beginning January 1, 198<u>6</u>:
   - capped at lesser of CPI or general schedule wage increase
   - what could be fairer: why should we reward those in retirement more than those employed?

5. Limit retirement COLA to $10,000 base and only 55% of annuity amounts over $10,000 (and adjust $10,000 annually to CPI):
   - prevailing private sector practice on COLAs is to grant about 60% of CPI
   - What's the beef: federal employees got a better COLA for longer than anyone else in the country, including Social Security:
     - 1962: first COLA for Feds vs 1975: first COLA for Soc. Sec.
     - Social Security never had twice a year COLAs
     - Social Security recipients never got 1% kicker in first annuity

6. Increase agency/employee contribution to retirement from 7% to 8% on 10-1-84 and 8% to 9% on 10-1-85.
   - sounds like a bite, but total employee contribution is repaid in retirement usually within <u>18</u> months
   - it's not an insult, it's a cost of doing business
   - last increase: 1969; 1970-1982 retirement costs increased 608% while employment payments only increased 140% in that period

7. Repeal minimum retirement benefit and college student benefit:
   - Note: those now covered and in college will not lose benefits; no new college students added
   - consistent with Social Security amendments last year
   - 5 USC 8345(f) ties CSRS minimum to Soc. Sec. (about $123/mo.)

8. Exclude new D.C. hires from employee benefit programs
   - a matter of equity: Why should new DC hires escape coverage under Social Security and get benefits while new executive branch employees are covered?

9. Enact federal health benefits voucher bill (HR 3798):
   - features: increase access to more plans; require catastrophic coverage (not specified); tie premium increases to general price index; provide rebates to employees with low cost plans

10. Require D.C. and Postal Service to pay agency share of retirees' health premiums, now paid by OPM
   - a matter of equity: why should quasi-independent agencies piggy back on our budget?

11. Base annuity on high-5 rather than high-3 salary years:
   - those within 3 years of retirement on date of enactment not covered by this proposal
   - first savings in FY88
   - prevailing private sector practise is high-5

ROUTING AND TRANSMITTAL SLIP Date 2/25

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As Requested	For Correction	Prepare Reply
Circulate	For Your Information	See Me
Comment	Investigate	Signature
Coordination	Justify	

REMARKS

Make copy of memo and TBC's question & answers & Casey Column for our records. I have copies of the testimony etc. This whole package can then go to George with note that we have a complete package. Put priority sticker on it.

Also make copy of above for C/PAD [redacted] Let's discuss our record keeping.

DO NOT use this form as a RECORD of approvals, concurrences, disposals, clearances, and similar actions

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24 FEB 1984

MEMORANDUM FOR: Director of Personnel

STAT

FROM: [redacted]
Liaison Division
Office of Legislative Liaison

SUBJECT: First House Post Office and Civil Service Committee Hearing on Supplemental Retirement (23 February 1984)

SUMMARY: Yesterday the Administration and the Congress, in the person of the House of Representatives, officially joined in battle over the subject of supplemental retirement for new federal employees subject to social security. The lines of disagreement between the two were clearly drawn and both parties, while agreeing that they need to come to some agreement, are not about to do so over the near term. The major issues are how unattractive the new system will be, compared to the existing systems, and what, if anything, will be done to reduce benefits to participants of the existing systems (in our case, the Civil Service Retirement System and CIARDS). The House appears willing to support the existing level of federal employee retirement benefits, or something very nearly the same, while the Administration clearly is driven by a desire to reduce federal retirement costs

1. Attached for your information and use is a complete set of documentation resulting from the subject hearing yesterday. It includes the witness list and prepared statements of all participants. Also included is a summary of the questions and answers, albiet not a complete one I am afraid, that were exchanged between members of the Committee and the people testifying.

2. It is interesting to note that the testimony of Mr. Devine, Director of the Office of Personnel Management (OPM) did not get through the legislative clearance process within the Office of Management and Budget (OMB) in a timely fashion. In speaking with a House Post Office and Civil Service Committee staffer on Wednesday afternoon, the day before this hearing, he stated that the Committee had not received Mr. Devine's testimony and that the Committee was being told by OPM that it (the testimony) was being held up by OMB. In fact, Mr. Devine apologized to the Committee at the begining of his testimony for not delivering his testimony on a timely basis (48 hours prior to the hearing) and acknowledged that he had had some problems with OMB.

3. As a result of this exchange, I have compared the draft testimony that we received from OMB with the testimony actually given by Mr. Devine yesterday. While the bulk of the changes are editorial in nature, a few substantive changes do seem to have been made. You will note at the top of page 5 of the final statement actually given by Mr. Devine that the first six lines have been added. They amplify on the point that the unfunded liability of current federal retirement systems is inconsistent with the law (ERISA) that requires private sector companies to fully fund their retirement plans on a current basis, and that if the government were held to the same private sector retirement law, that the current retirement costs for the federal government would be over 55% of payroll costs for a full 40 years, as opposed to something on the order of 14% in the private sector. At the top of page 10 of the final testimony, OMB added the phrase "...as well as the persons covered by the foreign service and CIA retirement systems,...". Further down on page 10, in the forth line of the FUNDING paragraph, OMB has added the phrase "..on a dynamic basis.." after the number $515 billion. While this may appear insignificant, it has great meaning to a budgeteer.

4. The principal value of the hearing, it seems to me, was twofold. First, it was knowing formally for the first time where the Administration was coming from on the issue of supplemental retirement. Secondly, it was the exchanges that took place between Chairman Ford (D,MI) and Mr. Devine and Congressman Frank Wolf (R,VA) and Mr. Devine. Both Members of the Committee were strongly pro-federal employee in their statements and questions, while Mr. Devine was strongly pro-"we need to reduce the cost of federal retirement programs because they are too great a burden on the taxpayers compared to retirement costs in the private sector". In his opening remarks, the Chairman stated that he viewed existing federal retirement benefits for current (pre 1 January 1984) employees as a part of a binding contract that existed between the federal government and its employees that could not be breeched because there has been performance on the part of the exployees, and that unless his recollection of his "Contracts 101" course in college was faulty, a contract in fact existed. The attached question and answer summary will give you an additional flavor of their exchanges.

5. I am also attaching a copy of Mike Causey's column in this morning's Washington Post because it is, in my judgment, a fairly accurate summary of some of what transpired yesterday.

6. The next scheduled hearing on this subject by this committee is 01 March 1984. At least three more are planned during March. I will attend and report on them as appropriate

STAT

Attachments:
As stated

Distribution:
Original - Addressee w/att
1 - DDA w/o att
1 - DD/PERS w/att
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1 - LEG/OLL w/att
1 - TBC Chrono w/o att
1 - TBC Subject w/att

The following summarizes the questions asked and answers provided during the course of the House Committee on Post Office and Civil Service hearing on supplemental retirement on 23 February 1984. It is not a complete summary, but rather is intended only to provide a flavor of the exchanges that took place.

Chmn Ford (D,MI): Is the unfunded liability problem that OPM talks about really a problem?

Hay/Huggins (a House Post Office/Civil Service Committee paid Consultant): It is not a real problem. Rather, it is a theoretical problem that would exist only if the federal government were a corporation in the private sector and subject to the ERISA law that governs the the funding and administration of private sector retirement and pension plans. In the public sector, it would only be a problem if one anticipated terminating the federal retirement programs that have accummulated this "unfunded liability", and no one is seriously considering doing that. Rather, it is merely a scare tactic that has no technical merit unless one plans to terminate one or more of the existing plans. My gosh, the Social Security system has an "unfunded liability" of some $6 trillion, but you don't hear the Administration crying wolf about this one.

Chmn Ford: I understand that capital accumulation plans are becoming very popular in the private sector. Would you tell us something about them?

Hay/Huggins: Thrift/savings plans are the most popular type of capital accumulation plans in the private sector. The witness went on to describe a thrift plan in more detail.

Chmn Ford: Is a low paid or is a high paid employee better off with Social Security?

Hay/HUggins: A low paid employee is much better off, in retirement, with Social Security because of the built-in tilt that Congress intentionally incorporated into the system. Also, a short term employee is better off in Social Security than is a long term employee. The same is true of a married person as opposed to a single person, all because of the policy decisions the Congress made when they designed the Social Security system.

Chmn Ford: How does the private sector typically integrate its retirement/pension plans with Social Security?

Hay/Huggins: A company typically decides whether or not it wants to change the built-in tilts in Social Security or not. If it does, there are various ways of doing so, and of doing so to varying degrees. With respect to disability, typically social security picks up disability payments if the disability occurs before an employee retires or reaches retirement age, whereas the company retirement plan will typically cover the disability if it occurs at retirement age.

Chmn Ford: In the annual Hay survey of private sector retirement plans, what is the average size of the firms surveyed?

Hay/Huggins: Approximately one-third have less than 1,000 employees, some 60% are in the industrial sector, with the remaining 40% or so in the financial/services sector.

Chmn Ford: Is W.R. Grace Co. included in your survey?

Hay/Huggins: No, it is not, but to the extent that the company makes its retirement information public, we will be glad to collect it for you and compare it with any other system you may want.

Chmn Ford: Good. Please do so. We will be hearing from Mr. Grace at a later point during these hearings.

Cong. Wolf (R,VA): Do you really think that the Congress can get a new retirement plan enacted in 1985?

Hay/Huggins: I think so. You will have a lot of data available from which to design and debate the ultimate system, but I think there is time.

Cong. Wolf: Do you talk to federal employee groups formally in the conduct of your work for this Committee?

Hay/Huggins: Not normally, but we can do so if the Committee desires that we do so.

Chmn Ford: I do <u>not</u> think that this would be appropriate because the federal employee groups can and do express their wants and complaints directly to the Committee, and should continue to do so, rather than to our consultant.

Cong. Wolf: How do you do job comparisons and comparability studies between the private and public sector?

Hay/Huggins: We do it at the macro rather than the micro level. We do not compare individual jobs so much as we do large occupational series and types of industries.

Cong Wolf: What are you doing in your work for this Committee to protect current employees from losing any of their current retirement benefits?

Hay/Huggins: You are the people who will do that, but we will propose policy alternatives to you. There are at least two ways to do this, both having to do with funding. You can choose to amortize increased costs over a 20 or 30 or 40 year period, or you can choose to comingle contributions from the new system with funds from the old (Civil Service) system so that there is no disruption of the cash flow.

Cong. Wolf: Is the latter the best way to give present employees a warm feeling that their current benefits are safe?

Hay/Huggins: Probably, but that is a political question that requires a political action.

Chmn Ford: Have there been any fringe benefit improvements in the private sector in the last three years or so?

Hay/Huggins: Not much. There have been some gains (dental and orthodentia coverages are better, more capital accumulation plans are available, and COLA protection is generally better), but there have also been some losses (mainly a greater sharing by the employee of continually escalating hospitalization and medical costs). The net effect has been about break-even.

Cong. Wolf: Will the eventual supplemental retirement system be better or worse than the existing system?

Hay/Huggins: That is an open ended question and I will give you an open ended answer. We will recommend to you a baseline system that will cost just what the current system costs, although the component pieces may differ. We will then provide you with a whole range of additive and deductive features from which you can choose as you go about making the policy/ design decisions, together with the costs associated with each. In the final analysis, you will answer your own question.

Cong. Wolf: Do you see problems with side by side employees receiving different retirement benefits?

Hay/Huggins: Probably, but this dilema exists all over the place. We will describe some of the problems that occur in this type situation and will tell you some of the things you might do to mitigate the situation.

Chmn Ford: Are you suggesting in your testimony that current federal employees will not get benefits.....?

Mr. Devine (Director, Office of Personnel Management): We need to structure a financing plan to amortize the unfunded liability over a 30 year or 40 year period to ensure that we can pay all the benefits of our current (pre-1/1/84 hirees). The unfunded liability of some $515 billion is not an insignificant one, although I understand one of your earlier witnesses may the point that this was not really a problem.....

Chmn Ford: Are you suggesting by your testimony that some $7 trillion of Social Security undunded liability is also a very real concern and that we should amortize that debt in the same fashion, scaring all of the people in this country in the process? And don't tell me that comparing the federal government situation with companies in the private sector subject to ERISA is a relvant comparison.

Mr. Devine: ".......". His answer was a long, rambling, generally unintelligible one. In sum, the Chairman and Mr. Devine agreed to disagree on whether or not the unfunded liability of federal retirement systems was a real problem or whether it was a theoretical one.

Chmnn Ford: I take you at your word when you tell me that the Administration wants to work with the Congress, but I would be remiss if I did not take you to task for the case you are trying to make to this Committee. You have blatently misused statistics throughout your presentation (Chmn Ford proceeded to cite several examples). We need good data and facts in designing this new retirement system, not a lot of extraneous data intentionally pulled together out of context, or otherwise, to make a point. I urge you not to become a budget advocate for the Administration at the expense of sound personnel management practices and theories.

Mr. Devine: Our intent is to be practical and to constructively work towards the design of a new system. We too are worried about a brain drain from the Executive Branch, but in our case it is because we see qualified, experienced employees at the height of their productive careers leaving the government because of a retirement system that allows them to do so, to the detriment of all of us, as opposed to retirement practices in the private sector that require such employees to remain until age 60, or 62, or 65.

Chmn Ford: Will the Administration consider qualifying the federal government so that the benefits of a 401k plan can be offerred to federal employees?

Mr. Devine: We are interested in all such ideas and are willing to work with the Congress in developing approaches to a new supplemental retirement system.

Hill Panel Works on New Retirement System

Negotiations that could lead to a revamped retirement system for the government's 2.8 million workers opened yesterday in the House Post Office-Civil Service Committee.

The immediate issue is creation of a retirement program for federal workers hired since January. But in the background is the question of what, if anything, will be done with the present system, which covers 340,000 workers in this area.

New federal hires pay into Social Security, as well as the Civil Service retirement system. Congress has until the end of next year to come up with a private sector-style pension program that takes into account dual payments to, and benefits from, the systems.

Federal workers hired before this year remain under the regular Civil Service retirement system, and have a vested interest in any changes that might be made in it. The Reagan administration feels the program is too costly, is more generous than plans available to most other American workers and needs to be revised.

The present Civil Service program—which costs employes 7 percent of gross salary—provides defined benefits. Federal workers now can retire at age 55 with 30 years of service and be guaranteed an annuity equal to about 56 percent of salary. Employes who put in 41 years get 80 percent of salary as an annuity. Most employes pay only the Medicare portion of Social Security (1.3 percent of salary) but not the rest of the Social Security tax.

Workers who are under the new system pay the full Social Security tax of 6.7 percent of salary. But the government, for the time being, is paying the employe share of the Civil Service retirement program.

Reagan administration officials hope that in devising a new retirement program for new federal workers—one that combines Social Security and Civil Service payments and benefits—Congress will also make changes in the regular Civil Service system. Those changes include raising the retirement age to 65, and requiring employes to put up to 9 percent of salary into the retirement fund.

At yesterday's session, committee Chairman **Rep. William Ford** (D-Mich.) made it clear that he thinks present Civil Service retirement benefits should be protected. Ford believes the administration is using scare tactics when it talks about the multibillion-dollar "unfunded liability" of the Civil Service retirement program. That is the amount needed, but not yet collected, to finance the system years down the road.

Ford said the liability might be a problem for a corporation that could someday go out of business. But he said that isn't expected to become a problem for the U.S. government. "It [the unfunded liability] would only be important if there was a threat that Cuba would take over and send us into bankruptcy," Ford said.

Office of Personnel Management Director **Donald Devine** said that while the immediate issue is a supplemental plan for new workers, attention must be paid to the regular Civil Service program. Devine said the program is solvent, but has built up an unfunded liability of $515 billion, "essentially obligating tomorrow's citizens to pay a major portion of the costs for the services we are receiving from federal employes today."